

ATTACHMENT E

1

2 Q. Please describe the purpose of this paper.

3 A. The purpose of this paper is to show how Ameritech's cost of capital was
4 determined and to demonstrate how this determination was made.

5

6 Q. Please summarize your findings.

7 A. The analysis performed indicated a cost of capital for Ameritech of 11.5%.

8

9 Q. How is the cost of capital determined?

10 A. Ameritech employs the Capital Asset Pricing Model (CAPM) when calculating
11 costs of capital for use in financial analysis.

12

13

CAPM ANALYSIS

1 Q. Please describe the Capital Asset Pricing Model.

2

3 A. The Capital Asset Pricing Model (CAPM) is a risk premium method used to
4 estimate a company's cost of common equity. It states that the expected return
5 for a particular security is based on three factors:

6 (1.) The time value of money. Measured by the risk-free rate, R_f , this is the
7 reward earned for merely waiting for a return on your investment without
8 accepting any risk.

9 (2.) A reward for bearing market (or systematic) risk. Measured by the
10 expected market risk premium, $[E(R_m) - R_f]$, this is the return earned on the overall
11 stock market in excess of the return on the riskless asset.

12 (3.) The amount of systematic risk borne. Represented by β_s , this is the
13 amount of systematic risk accepted by owning security s , relative to the average
14 security.

15 The CAPM model is expressed mathematically as follows:

16
$$R_s = R_f + \beta_s(R_m - R_f)$$

17 R_s = the required rate of return on stock s

18 R_f = the risk-free rate

19 R_m = the expected market return

20 β_s = beta, a measure of systematic risk for security s .

21

22 Q. How did you estimate the risk-free rate of return?

23

24 A. I use the yield on U.S. Treasury debt as a proxy for the risk-free rate of return

25 The risk free rate of 7.1% is from the yield on 10 Yr. Treasury debt as of 4/5.95

26

1 Q. How was the market risk premium estimated?

2

3 A. In the CAPM model, the $(R_m - R_f)$ equation represents the excess return one
4 would expect to earn by investing in the market portfolio relative to riskless
5 assets; this construct is also known as the market risk premium. As shown in
6 the CAPM calculation, 7.0% was used as the assumed risk premium. Based on
7 research performed by Ibbotson Associates, 7% is a reasonable measure. As
8 summarized in their *Stocks, Bonds, Bills and Inflation: 1996 Yearbook*, their results
9 show that large company stocks have provided a 7.4% excess return over long-
10 term government bonds from 1926 to 1995 (measured as an arithmetic mean).
11 In my judgment, the 7.0% used in 1995 is an appropriate and conservative
12 representation of excess market returns.

13

14 Q. How did you determine firm-specific risk premiums?

15

16 A. As indicated earlier, a security's beta is the factor used as a measure of risk for
17 individual common stocks. When multiplied by the market risk premium, a
18 security's beta produces a risk premium specific to that company's stock.

19

20 Q. What are the beta estimates for the peer company sample and Ameritech?

21

22 A. For the peer company sample, I used a list of major local exchange
23 telecommunications carriers. I obtained beta estimates from three sources for
24 inclusion in my analysis: Value Line, Merrill Lynch, and Bloomberg Financial

1 Markets. These firms are well known and widely used sources of financial
2 market data. I then calculated an average beta for each of the comparable
3 companies and Ameritech, and derived an average telephone industry beta for
4 the comparable group. The average beta for the comparable peer company
5 group computed to .86.

7 Q. What cost of equity does CAPM estimate for the sample and Ameritech?

9 A. Using the CAPM formula previously shown, the cost of equity estimate using the
10 sample group average beta is 13.2%.

12 LEVERAGE

14 Q. What leverage ratio did you use in calculating Ameritech's weighted average
15 cost of capital?

17 A. I use a 30.0% debt ratio in my WACC calculation.

19 Q. Please describe how you arrived at this debt ratio.

21 A. For Ameritech and the comparable companies, we obtained their debt balances
22 and their market capitalizations from Standard & Poors' Compustat. This data
23 was downloaded from Compustat during January 1995. We calculated the debt
24 to market equity ratio for each company, then took an average of these ratios to

1 arrive at the 28.7%. This was then rounded up to 30% for the WACC
2 calculation.

3

4 Q. Why do you use market equity rather than book equity?

5

6 A. Finance theory states that one should use the market values of debt and equity
7 in calculating debt/equity ratios for use in computing a weighted average cost of
8 capital. This is the textbook approach commonly taught in college Finance
9 courses, and is the methodology we use in determining capital costs for use in
10 internal investment analysis.

11

12 Q. Why do you then use book values for debt?

13

14 A. I use the book value of debt in the leverage calculations due to constraints in
15 obtaining accurate measurements for the market value of a company's debt.
16 Market quotes are typically not available for each series of note or bond
17 comprising a company's total outstanding debt. Medium and long term debt is
18 often purchased by "buy and hold" investors such as investment trusts and
19 pension funds. As such, many debt issues are not actively traded in the
20 financial markets, and sales or transfers are often accomplished as private,
21 negotiated transactions. Additionally, call provisions included in debt terms tend
22 to cause market value to remain close to par value. Due to these factors, a
23 modified approach to calculating leverage, using book debt balances as a proxy
24 for the market debt value, has been used.

25

COST OF DEBT

1

2

3 Q. What cost of debt assumption did you use in your WACC calculation?

4

5 A. I used a 7.6% cost of debt.

6

7 Q. How did you arrive at this cost of debt?

8

9 A. The 7.6% represents Ameritech's approximate market cost of debt at the time
10 the analysis was originally performed. It is based on the 10 Yr. Treasury Bond
11 yield of 7.1%, plus an additional borrowing spread of 50 basis points for
12 telephone companies with a credit rating similar to Ameritech.

13

14 Q. Why do you use a current market cost of debt assumption rather than an
15 embedded cost of debt?

16

17 A. Finance theory states that the proper borrowing cost to use in calculating a
18 WACC is a company's current market cost of debt. This is the cost of debt that
19 creditors would demand for lending funds to the firm today, and is more of a
20 forward-looking measure of borrowing cost than the embedded cost of debt.

21

22 Q. What is a reasonable overall cost of capital for Ameritech?

23

1 A. The weighted average cost of capital (WACC) for Ameritech was calculated to
2 be 11.5%. This was based on the formula:

3 **WACC = (Cost of Debt x Debt %) + (Cost of Equity x Equity %)**
4 **= (7.6% x 30%) + (13.2% x 70%)**
5 **= 11.5%**

Ameritech Cost Of Capital

LECs	BETAS				Book Debt Value	Market Equity Value	Market Debt Ratio	Equity Beta	Debt Beta	Asset Beta	Assumed Leverage	Equity Beta
	Bloomberg	Value Line	Merrill Lynch	Average Beta								
Alltel Corp	0.87	0.90	0.99	0.92	1,850.6	5,721.8	24.4%	0.92	0.00	0.70	30.0%	0.89
Century Telephone	0.95	1.20	1.34	1.16	697.9	1,709.5	29.0%	1.16	0.00	0.83	30.0%	1.18
Cincinnati Bell	0.82	0.85	0.86	0.84	592.2	1,214.5	32.8%	0.84	0.00	0.57	30.0%	0.81
GTE Corp	0.66	0.85	0.86	0.79	14,201.0	30,689.7	31.6%	0.79	0.00	0.54	30.0%	0.77
Rochester Tel	0.96	N/A	0.79	0.88	500.0	1,435.2	25.8%	0.88	0.00	0.65	30.0%	0.93
So New England	0.94	0.90	0.80	0.88	985.0	2,129.8	31.6%	0.88	0.00	0.60	30.0%	0.86
AIT	0.93	0.75	0.82	0.83	6,527.0	23,529.0	21.7%	0.83	0.00	0.65	30.0%	0.93
Bell Atlantic	0.90	0.85	0.79	0.85	9,258.0	22,192.2	29.4%	0.85	0.00	0.60	30.0%	0.85
Bell South	0.77	0.75	0.72	0.75	9,383.0	28,223.4	25.0%	0.75	0.00	0.56	30.0%	0.80
Nynex	0.77	0.80	0.87	0.81	10,173.0	16,031.8	38.8%	0.81	0.00	0.50	30.0%	0.71
Pactel	0.95	NMF	0.90	0.93	5,152.0	12,456.9	29.3%	0.93	0.00	0.65	30.0%	0.93
Southwestern Bell	0.80	0.90	0.80	0.83	7,304.0	24,810.7	22.7%	0.83	0.00	0.64	30.0%	0.92
US West	0.54	0.75	0.75	0.68	7,251.0	16,687.2	30.3%	0.68	0.00	0.47	30.0%	0.68
Averages	0.84	0.86	0.87	0.86	5,682.7	14,371.7	28.7%	0.86	0.00	0.61		0.87

Notes:

- Beta measures were taken from Bloomberg as of 1/24/95, and Value Line as of 1/13/95.
- The risk free rate was based on the 10 Yr. Treasury yield as of 4/05/95.
- Cost of debt reflects a marginal cost of borrowing, and is based on the 10 Yr Treasury plus an assumed spread of 50 basis points.

The Cost of Equity is based on the Capital Asset Pricing Model (CAPM), which calculates expected returns as:

$$\text{Cost of Equity} = \text{Risk Free Rate} + (\text{Beta} \times \text{Market Risk Premium})$$

$$\text{Weighted Average Cost of Capital} = (\text{Debt \%} \times \text{Cost of Debt}) + (\text{Equity \%} \times \text{Cost of Equity})$$

WACC Calculation	
Equity Beta	0.87
Risk Free Rate	7.1%
Market Risk Premium	7.0%
Cost of Debt	7.6%
Debt Ratio	30.0%
Cost of Debt	7.6%
Cost of Equity	13.2%
WACC	11.5%

ATTACHMENT F

DIRECT TESTIMONY OF EDWARD J. MARSH, JR.

Q. What is the purpose of your testimony in this case?

A. The purpose of my testimony is to recommend a reasonable range of economic lives for use by Ameritech Illinois in calculating depreciation expenses in the unbundled network element (UNE) cost studies. These are the studies which are discussed by Company witness Mr. Palmer in his testimony, Exhibit 3.0.

Q. Would you please summarize your testimony?

A. In the last four years, continuing changes in technology and competition, as well as in the legal and regulatory environment, have rendered existing regulated depreciation rates inadequate and unreasonable. These rates, which are significantly based on historical accounting or engineering considerations, do not accurately reflect the effect of rapid technological change and competition on plant obsolescence in general, or those plant elements in particular which will be purchased by highly sophisticated customers who will use those elements to directly compete with Ameritech Illinois. In the competitive environment which Congress has established through the Telecommunications Act of 1996, and which the FCC is attempting to expeditiously implement, depreciation lives for Ameritech Illinois services will be driven much more by the requirements of these sophisticated customers who are planning to provide the same or similar services as the Company provides. Most, if not all, of these customers/competitors do not have their depreciation rates established for pricing purposes by the ICC, and are free to utilize depreciation rates for similar plant which are more reflective of its true economic value.

With regard to a number of significant plant categories, the economic depreciation lives which those competitors utilize are significantly shorter than the existing lives for Ameritech Illinois. How competition and technology and customer requirements will actually drive Ameritech Illinois' or competitors depreciation lives in the future is not entirely clear at this time, but it is clear that the determination of lives using the formulistic and historically engineering based approaches which have been utilized in the past for regulatory purposes will not produce estimates of depreciation lives consistent with what is being used in the industry. It is also clear that Ameritech Illinois' existing regulatory depreciation lives, and the traditional methods of determining them for regulatory purposes, are inadequate and out of synch with the industry as a whole.

It is the purpose of my testimony to suggest to the Commission that, given the uncertainties of changing technological, market, and regulatory factors, the most reasonable way at this time to determine appropriate depreciation lives for Ameritech Illinois is to look at the lives actually used by other telecommunications providers who provide services similar to Ameritech Illinois and who may in some cases intend to compete with Ameritech Illinois. In addition, relevant information can be obtained from recent FCC actions regarding similar types of plant for cable television companies, who are also potential competitors of Ameritech Illinois. My testimony reviews this information and, based upon that review, recommends a range of appropriate economic lives for use by the Company in calculating depreciation expenses in the UNE cost studies.

- Q. Would you summarize your recommendations for the range of economic depreciation lives for use in Ameritech Illinois' UNE cost studies?
- A. I recommend a range of five to ten years for digital electronic switching equipment, five to ten years for digital circuit equipment, and ten to fifteen years for outside plant equipment.
- Q. Did you consider relevant portions of the Telecommunications Act of 1996 and recent orders of the Federal Communications Commission in recommending the depreciation lives for use in these Ameritech Illinois cost studies?
- A. Yes. Based upon my review, it is reasonable to conclude that the Telecommunications Act of 1996 ("Act") and recent actions by the Federal Communications Commission when viewed together encourage a view of depreciation which places primary reliance upon economic lives, rather than historically based lives utilized in traditional rate of return regulation. The Act changes the requirement formerly imposed upon the FCC by the Communications Act of 1934 to prescribe depreciation rates for all subject companies, to a more permissive statement that the FCC "may" prescribe rates if it deems necessary (Telecommunications Act of 1996, Section 403(d)). The FCC interprets and implements this change when it states in its order in Docket 96-98 that it concludes that an appropriate calculation of TELRIC will include a depreciation rate that reflects the true changes in the economic value of an asset (First Report and Order, CC Docket No. 96-98 and CC Docket No. 95-185, released August 8, 1996, FCC 96-325, paragraph 703).

Q. What are the differences between the economic lives to be used in support of the TELRIC cost studies, and the accounting lives used for regulatory reporting?

A. The accounting lives used for regulatory reporting purposes are the average lives underlying the entire individual asset accounts of the Company. For example, the life for the digital circuit account composites the life of all the various forms of digital circuit equipment which may be currently employed in the network, and develops a life for the account as a whole. In addition, regulated accounting lives are more concerned with the physical life of the entire group of investments in the account based upon engineering and historical factors. The economic lives recommended for use in the UNE cost studies, however, deal with only the latest technology available to provide the service, and deal with the expected amount of time that a given investment can be expected to provide the level of service demanded by the customers who can reasonably be expected to purchase those services. Economic life is much more concerned with the expected demand of the customers for service capabilities and flexibility, while the regulated accounting life is more concerned with the total physical life of a group of assets in an account as measured primarily by engineers and historical experience. Regulated accounting life generally deals with the physical life of plant serving all customers in all parts of the Company's territory, while the economic lives in the UNE studies are concerned with the plant supporting the services to be provided to a subset of those customers. This subset of customers is the group of highly knowledgeable purchasers of UNE, who will use these items to compete with Ameritech. This group of customers/competitors is technologically sophisticated, generally well financed, has extensive business knowledge and acumen, who are in a position to understand both the technologies currently employed by the Company and those which will be available in the future.

These customers have the knowledge and experience and can be expected to demand access to the latest technology and developments in order to insure the success of their own businesses. The depreciation lives for the UNEs, therefore, are lives of portions of investments which are dependent primarily on the expected needs and demands of new entrant providers for Ameritech services, who will create and sell new services to eventual end user customers.

- Q. Please discuss the changes which have occurred in the marketplace, in competition and regulation over the last few years which have created the high degree of uncertainty facing the company.
- A. In just the last few years, the choices of services and providers available to customers for communications services have increased dramatically. Today, customers are able to obtain telephone services from cellular companies. Soon, customers will have other choices for provision of their local service, such as from wireless personal communications networks, and possibly from their local cable television provider, among others. In Illinois, there is competition in the provision of intraLATA long distance services, and customers have many choices of providers of that service. In Illinois, at least twenty-four competitive carriers have been certified to provide alternative service.

Services and providers not even envisioned a few years ago now have the potential to offer telecommunications services. For example, five years ago few people in the general public had even heard of the Internet; today, not only do millions of people connect to the Internet every day, but Internet providers are adding the capability to place telephone calls over the net. All of these factors have increased the level of uncertainty with regard to the economic life expectations of

Ameritech's plant. This uncertainty is based upon the array of choices available to customers from wireline and reseller competitors, as well as those providers who will not be using the facilities of the Company.

Q. How has Ameritech attempted to anticipate these demands?

A. Ameritech is trying to anticipate the requirements of the facility based competitors and estimate their needs in the face of little information from those competitors as to their business plans and their expected customer demand. This is not unexpected, since these customers would be reticent to share information they consider competitively sensitive. There are no precise measurements available to us to determine what the requirements will be. Likewise, there is no historical blueprint or experience that can accurately predict how all the complex interrelationships of these unprecedented technological and competitive factors will drive customer demand. New providers of telecommunications services will likely cause both technological change among the plant assets of the Company, and an increase in the risk associated with provision of these services to our customers. One of the realities associated with all customers having access to multiple providers of services is that investments made today to meet the expected customer needs and demands may prove to be short lived, if those customers decide to obtain similar services from the group of alternative providers available to them. Ameritech, like its competitors, must accept an increased risk that its investments will be short lived as the demands of its customer body shift. Obviously, there is uncertainty associated with the demands and plans of our customers.

- Q. Have you reviewed the depreciation rates and lives used by other businesses within the telecommunications industry, and if so, what are the results of that review?
- A. It is appropriate to review what other companies are using for depreciation lives where those companies are providing similar services to those of Ameritech Illinois, operate in a similar technological environment, and face similar uncertainty. I reviewed the publicly available financial information filed with the Securities and Exchange Commission for 1995 for 36 companies. These companies include twenty-eight local exchange companies from ten holding companies, four interexchange companies including British Telecom, and four large Cable Television companies. These companies were selected because they are in the highly competitive telecommunications industry with similar technologies, and some may be competitors of Ameritech Illinois. The results of that review are attached to my testimony as Exhibit 5.0, Schedule 1. What is apparent from this information is that there is a range of depreciation lives across those members of the industry surveyed. The ranges of the lives shown are seven to twelve years for digital electronic central office equipment, seven to ten years for digital circuit equipment, and three to thirty years for outside plant equipment.
- Q. Did you review any other orders of the FCC and other federal agencies before recommending ranges of depreciation lives for UNE cost study purposes?
- A. I reviewed the order of the FCC related to cost study methods and assumptions permissible to the cable TV industry to be used in cost studies underlying their rates. Part of the study conducted by the FCC which led to that order requested that the cable TV companies submit data on the lives they had chosen on their own to use for their plant assets. The FCC then performed a statistical

analysis of the lives chosen by the cable TV industry for its own use, and established from that what the FCC considered to be reasonable ranges of lives for that type of plant. The range selected by the FCC for the distribution plant of the cable TV companies was from ten to fifteen years (Second Report and Order, First Order on Reconsideration, and Further Notice of Proposed Rulemaking, Dockets MM No. 93-215 and CS No. 94-28, FCC 95-502, released January 26, 1996; paragraph 92). The life range I recommended for use in the Ameritech Illinois UNE studies for outside plant equipment is the same as the range ordered for cable TV providers.

In addition, the United States Internal Revenue Service allows all telecommunications companies to use five years as the life of most central office and circuit equipment when calculating depreciation expenses for taxes. Those same rules permit companies to use fifteen years as the depreciable life for outside plant. These lives fall within the range of lives I recommend for use in UNE cost studies.

- Q. What plant lives has Ameritech used for reporting to the financial community and the securities and exchange commission?
- A. For reporting to the financial community and the Securities and Exchange Commission, Ameritech uses seven years for digital electronic central office and digital circuit equipment, and fifteen years for outside plant equipment.
- Q. Based on your review of this information, what is your opinion of the range of economic lives which are reasonable for the Ameritech plant assets used in the UNE cost studies?

- A. Based upon the foregoing, I recommend a reasonable range of economic lives for use in TELRIC studies as five to ten years for central office and circuit equipment, and ten to fifteen years for outside plant. These ranges are consistent with the range of depreciation lives reported by other telecommunications companies which offer similar services and which operate in the same technological and market environment as Ameritech Illinois. Moreover, many of these companies are expected to become direct competitors of Ameritech. My recommended ranges are also consistent with the depreciation lives the FCC has allowed cable TV companies for similar plant for purposes of setting rates for those services, and with the depreciation lives the IRS permits for income tax purposes. In addition, my recommended ranges are consistent with the plant lives Ameritech has reported to the financial community and the Securities and Exchange Commission.

Q. Does this complete your testimony?

A. Yes, it does.

Ameritech L. Action Study
Depreciation Lives Analysis

M. C. C. Docket No. 88-0488
Ameritech Illinois Ex 5.0 (Marsh)
Schedule 1

	Central Office Equipment						Cable, Wiring and Conduit						Other Specified Equipment
	Type	Digital	Analog	Digital	Circuit		Type	Copper	Aerial	Underground	Buried		
Buildings	Unspecified	Switching	Switching	Circuit	Other		Unspecified	Cable	Copper	Copper	Copper	Fiber	Conduit
Local Telephone													
Ameritech Corporation													
Michigan Bell Telephone Company		7	Obsolete		7	15							various
Indiana Bell Telephone Company, Incorporated		7	Obsolete		7	15							various
Wisconsin Bell, Inc.		7	Obsolete		7	15							
The Ohio Bell Telephone Company		7	Obsolete		7	15							various
Illinois Bell Telephone Company		7	Obsolete		7	15							various
Bell Atlantic Corporation													
Bell Atlantic - Delaware, Inc.	18-40	7-12				16-50							6-30
Bell Atlantic - Washington, D.C., Inc.	18-40	6-12				16-50							6-30
Bell Atlantic - West Virginia, Inc.	30-40	7-16				18-50							6-27
Bell Atlantic - Pennsylvania, Inc.	18-40	7-12				16-50							6-30
Bell Atlantic - Maryland, Inc.	34-40	6-12				16-50							6-30
Bell Atlantic - Virginia, Inc.	27-40	5-12				16-50							6-30
Bell Atlantic - New Jersey, Inc.	15-40	8-12				16-50							6-35
Bell South Corporation													
BellSouth Telecommunications, Inc.		10			9.1				14	12	14		
BellSouth Enterprises	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
GTE Corporation													
GTE California	10				8	15						20	
GTE North	10				8	15						20	
GTE Florida	10				8	15						20	
GTE Southwest	10				8	15						20	
GTE South	10				8	15						20	
GTE Northwest	10				8	15						20	
GTE Hawaiian Telephone	10				8	15						20	
Contel of California	10				8	15						20	
Frontier Corporation													
Frontier Telephone Company of New York, Inc.	6-35	13.5	8		8				19	12	18	25	10-21

	Buildings	Central Office Equipment					Cable, Wiring and Conduit							Other Specified Equipment
		Type	Digital	Analog	Digital	Circuit	Type	Copper	Aerial	Underground	Buried	Fiber	Conduit	
		Unspecified	Switching	Switching	Circuit	Other	Unspecified	Cable	Copper	Copper	Copper			
NYNEX Corporation														
New England Telephone and Telegraph Company			12			8			17	15	17	20		
New York Telephone Company			12			8			17	15	17	20		
NYNEX CableComms Group, Inc.	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Pacific Telesis Group														
Pacific Bell			10			8		14				20	50	
Nevada Bell	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
SBC Communications, Inc.														
Southwestern Bell Telephone Company			11			7		18				20	50	
Southern New England Telecommunications Corporation														
The Southern New England Telephone Company			10.5			8.2		10.5-16				30	55	
U S West, Inc.														
U S West Communications Group	27-49		10			10			15	15	20	20		6
U S West Media Group	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Interexchange Carriers														
AT&T Corporation	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
MCI Communications, Inc.	NS	NS												6
Sprint Corporation			11-12			7-11	15-20							
WorldCom, Inc.		5-25					5-30							5-30
Other														
British Telecom	40	11-13					10-37						25	2-25

	Microwave				Other	
	Buildings	Converters	Headends	Equipment	Reception	Distribution Equipment
Cable						
Cablevision Systems Corporation	22-39	3-5	6-9	7 1/2	10-15	2-12
Cox Communications, Inc.	N/A	N/A	N/A	N/A	N/A	N/A
TCI Communications, Inc.	NS				3-15	NS
Continental Cablevision, Inc.	25-40				3-15	4-12 1/2
Comcast Corporation	15-40					2-10

N/A - Information Not Available
NS - Information Not Specific

ATTACHMENT G

DIRECTLY ASSIGNED LABOR COSTS COMPONENTS

The following is a description of the wage rate elements comprising a directly assigned labor cost:

Productive Wages and Salaries: Consists of straight time average hourly wages paid to occupational employees for regularly scheduled time and overtime spent performing productive work.

Premium Costs: Consists of the premium portion of overtime hours worked, not including the basic wage rate.

Paid Absence: Reflects wage costs of productive employees for holiday, vacation, and excused work days.

Non-Productive Costs: Consists of wage costs for productive employees associated with hours spent in meetings and conferences. Also included are wage payments such as merit awards, military leave payments, termination payments, and other salary payments of a special nature.

Benefits: Consists of loading on productive wages and salaries for Social Security, Relief and Pension, and other payroll taxes.

Motor Vehicle: Reflects a loading on productive wages and salaries for motor vehicle equipment. This component is only applicable to motorized plant/engineering cost groups.

Other Tool Expense: Consists of loading on productive wages and salaries for other tools and work equipment used by applicable plant and engineering work groups.

Other Related Costs & Plant or Engineering Miscellaneous Expenses: Consists of direct non-salary expenses incurred by productive employees.

Total Incremental Cost per Hour: Consists of the sum of the above costs.

Administrative Clerical: Consists of wages paid to Administrative Clerical employees who perform basic office services in support of productive employees.

Management Supervisory: Consists of wages paid to first through third level managers who supervise productive employees.

Training Costs: Consists of the wage costs of productive employees while in training.

Directly Assigned Cost per Hour: Consists of the sum of total incremental costs plus administrative clerical, management supervisory, and training costs.

Benefit Rates

<u>Illinois</u>	<u>Indiana</u>	<u>Michigan</u>
Mgmt - .3857	Mgmt - .3337	Mgmt - .3455
Non - .3387	Non - .3302	Non - .2978
<u>Ohio</u>	<u>Wisconsin</u>	
Mgmt - .4012	Mgmt - .3347	
Non - .3195	Non - .3184	

Motor Vehicle Rates (Plant & Engineer)

<u>Illinois</u>	<u>Indiana</u>	<u>Michigan</u>
1.2693198	1.1564131	2.4333387
<u>Ohio</u>	<u>Wisconsin</u>	
1.0275754	2.2703658	

Other Tool Rate

	<u>Illinois</u>	<u>Indiana</u>	<u>Michigan</u>
Engr.	0.0095713	0.0000000	0.0604614
Plt.	1.0688873	1.1609738	0.8207831
	<u>Ohio</u>	<u>Wisconsin</u>	
Engr.	0.0011091	0.0166245	
Plt.	0.7174074	1.0178938	

Plt/Engr. Misc. Rate

	<u>Illinois</u>	<u>Indiana</u>	<u>Michigan</u>
Engr.	0.1157106	0.1569558	0.1005669
Plt.	0.0384829	0.0655182	0.0576072
	<u>Ohio</u>	<u>Wisconsin</u>	
Engr.	0.0837718	0.1283205	
Plt.	0.0476634	0.0453327	